# Drivers of Turkish Inflation

**Objectives –**

1. Investigation of Drivers for Turkish Inflation using SVAR
2. Investigation of 7 primary models – 2 models with 5 variables, 4 models with 6 variables and 1 model with 7 variables

OUPRE

OUPER

O(G)UPER
(A)OUPER
(D,OS)OUPER
O(F)UPER
O(V)UPER

where,

*O is the Year-on-Year Log changes in Global Brend Crude Oil Prices*

*U is the Year-on-Year percent changes in the Turkish Unemployement Rate*

*P is the the Year-on-Year log changes Consumer Price Index as measure of Turkish Inflation*

*E is the Year-on-Year log changes in the exchange rate of USD-TRY (Turkish lira)*

*R is the Year-on-Year changes in the policy rate*

*G is the Year-on-Year percent changes in the "Production of Total Industry in Turkey"*

*A is the Year-on-Year percent changes in the "Global Real Economic Activity"*

*F is the Year-on-Year percent changes in the "Wu-Xia shadow US federal rates"*

*V is the Year-on-Year percent changes in the "Chicago Global Options Exchange Volatility Index" (VIX)*

*D,OS is the Year percent changes ins the global demand, and regression residuals fitted in the change in commodity change*
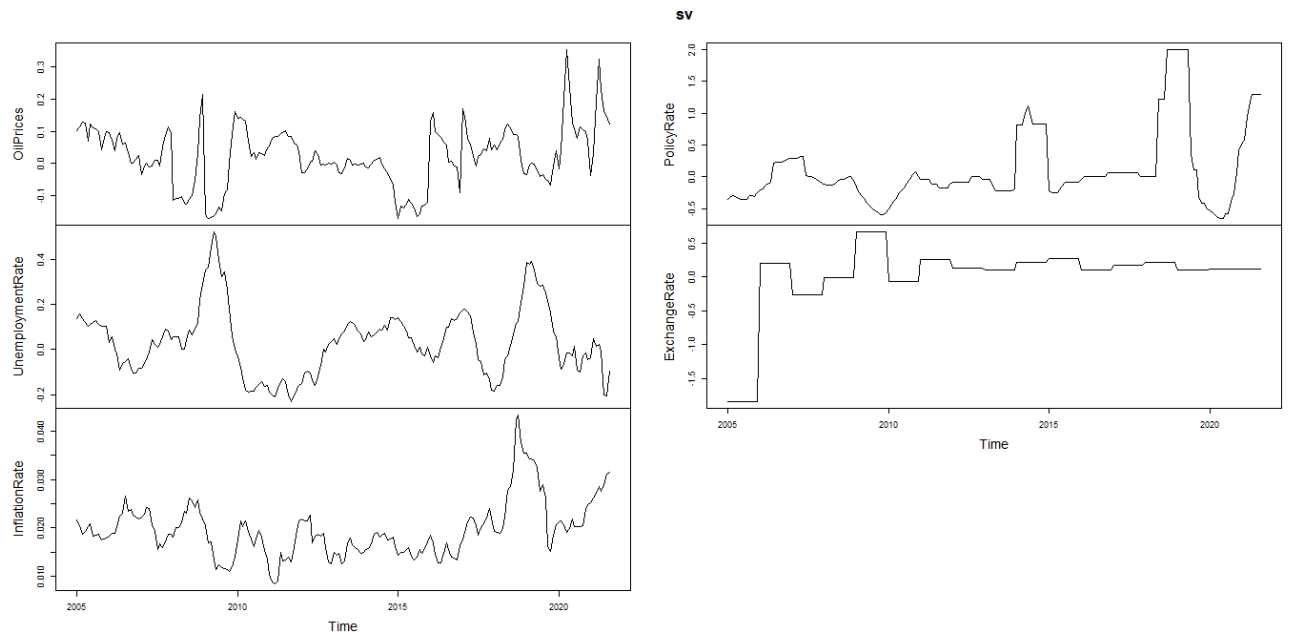
## Study Period Specifications

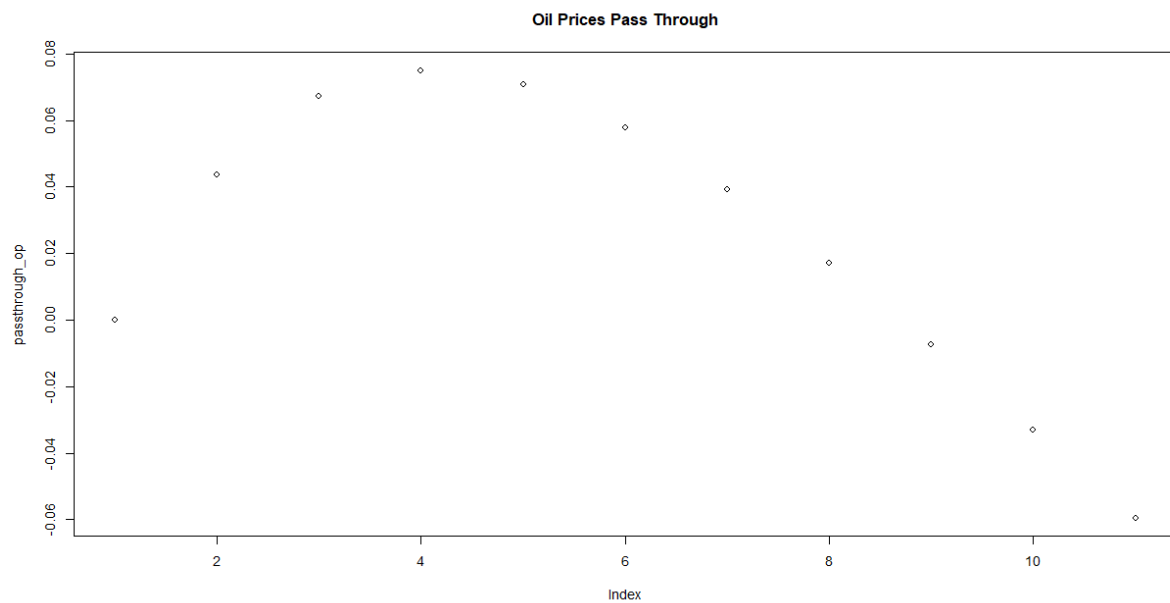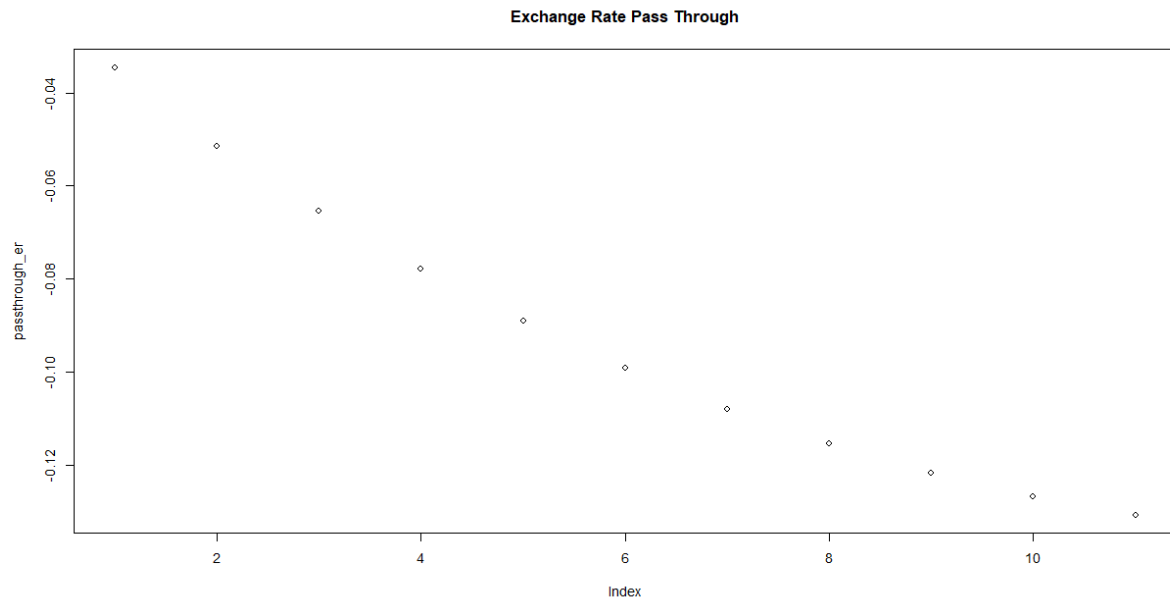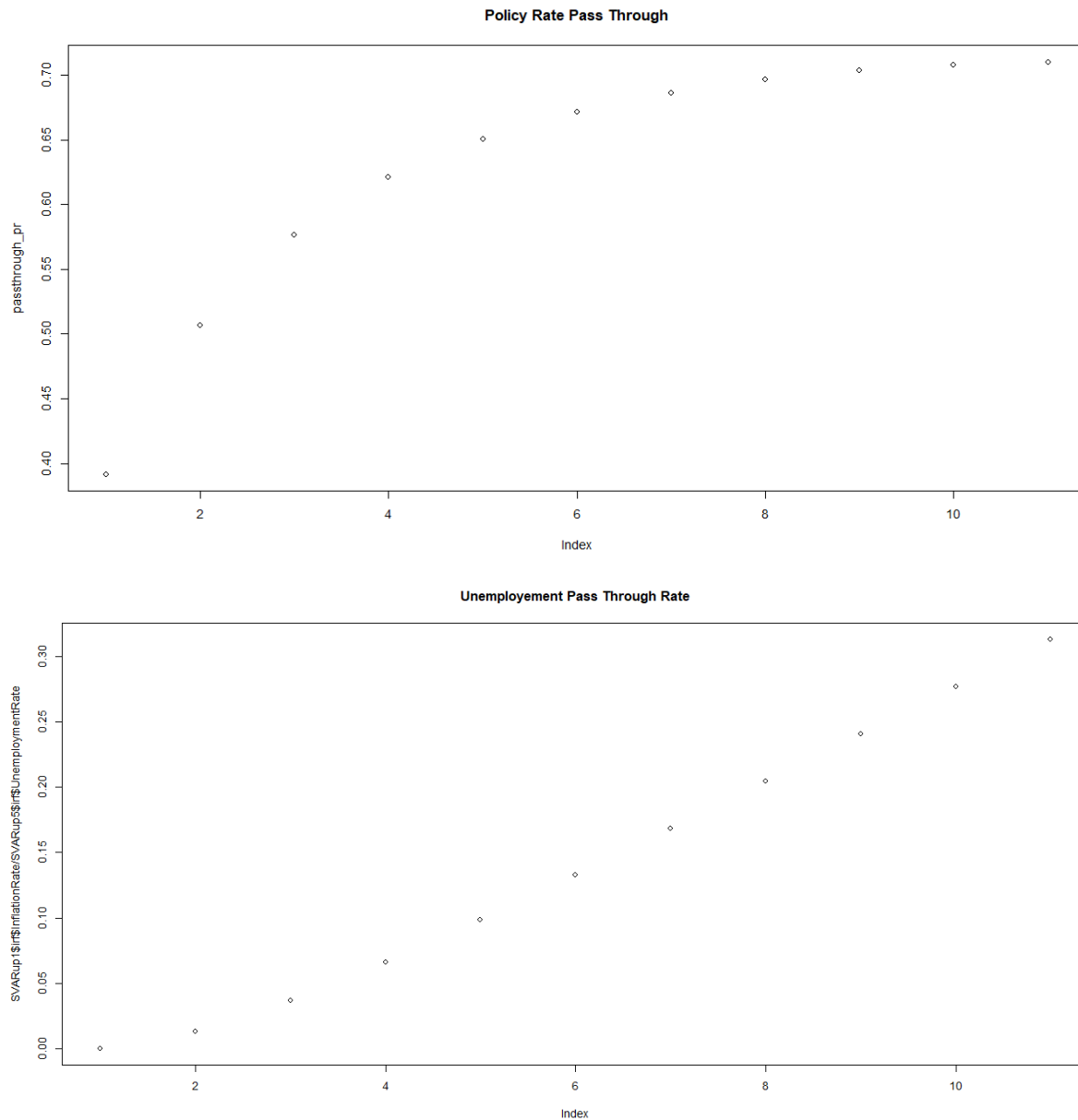Timeline for Data Collection – 2005:M1 to 2021:M8

Frequency – Monthly

## Empirical Results –

1. When values for variables in 2005:M1:M12 were based on YoY of 2004:M1, lag based on DIC = 2

2. When values for variables in 2005:M1 were kept original, lag based on DIC = 9

**Cumulative Impulse Response Function Plots for Variables to determine Elasticity of given variables with Inflation Rate at 68% CI**



Exchange Rate Pass Through



Oil Prices Pass Through

**Policy Rate Pass Through**



**Unemployement Pass Through Rate**



## Correlation of Macroeconomic Indicators with Inflation during study period

Unemployement ~0

Policy Rate +ve

Exchange Rate  -ve

Oil Price +ve

Total Industry Production +ve

Global Real Economic Activity  +ve

US Monetary Policy YoY change in Federal Fund (Wu Xia shadow rate) +ve